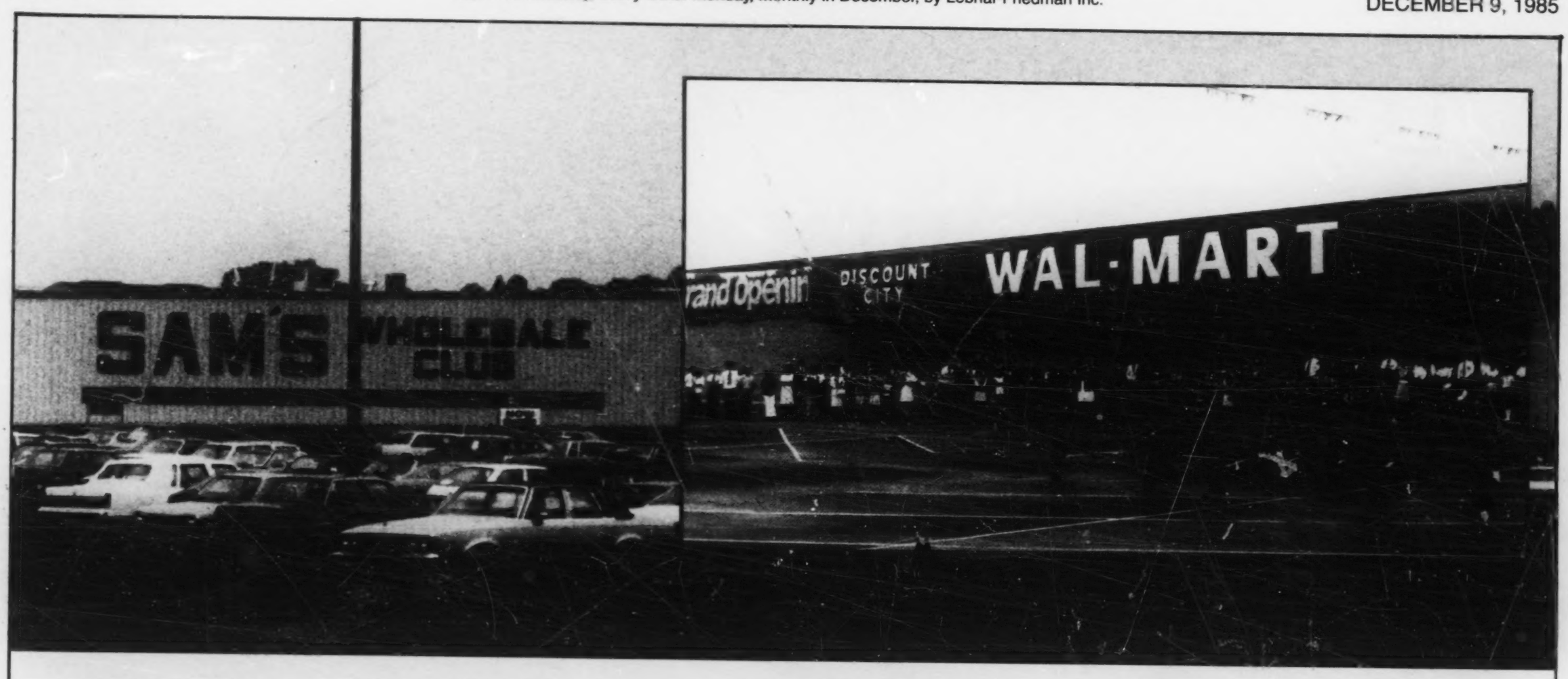
C5150-3

# SPECIAL REPORT: WAL-MART


# Discount Store News®

*THE NEWSPAPER OF DISCOUNT RETAILING*

VOL. 24, NO. 24 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | DECEMBER 9, 1985


## Wal-Mart Rockets Past $8B Mark on Way to 1990

In 1985, the name Wal-Mart evokes images of a formidable $6 billion retailing phenomenon, led by a populist chairman committed to promoting American goods.

That's a long way from the company's humble beginnings in Sam Walton's single Ben Franklin variety store, doing $80,000 in sales in Newport, Ark., in the late 1940's. And it's even a far cry from when the company first went public 15 years ago, with 23 Wal-Mart's and 15 variety stores producing $44 million in sales.

Today, the Wal-Mart empire spans 22 states, with 834 discount stores, 23 membership warehouse clubs, two discount drug stores and a crafts store—and sales expected to hit $8 billion in the current year.

The Wal-Mart success formula has been built on a solid foundation of: tight control on expenses, which keeps prices sharp every day while allowing the chain to function on extremely tight gross margins; a strong operations support system that is keyed by the latest technology; a company culture—championed by a charismatic Walton—that stresses recognition of performance by everybody from stock clerks to front office executives; and by what one store associate called "a low R factor. There's very little resistance to change here."

But the bottom line on Wal-Mart's growth is its presentation to the consumer as it competes with a host of national and regional competition—everybody from other discount department stores to specialty retailers to drug chains and supermarkets.

In this special report, *Discount Store News* presents a look at the Wal-Mart juggernaut from several angles. First is a look at the company as a whole, which *DSN* projects will reach $22 billion in annual sales by 1990.

There is also an examination of Sam's Wholesale Club, the three-year-old membership warehouse chain that this year should generate more than $750 million in sales, on its way to becoming a major contributor to Wal-Mart's growth.

And there is a detailed look at what the Wal-Mart customer sees—the stores themselves—with analyses of 14 key departments, including results of a new consumer poll.

This is a snapshop of Wal-Mart, which has risen from that single store to become a dynamic leader in discount retailing.

### Special Report: Wal-Mart

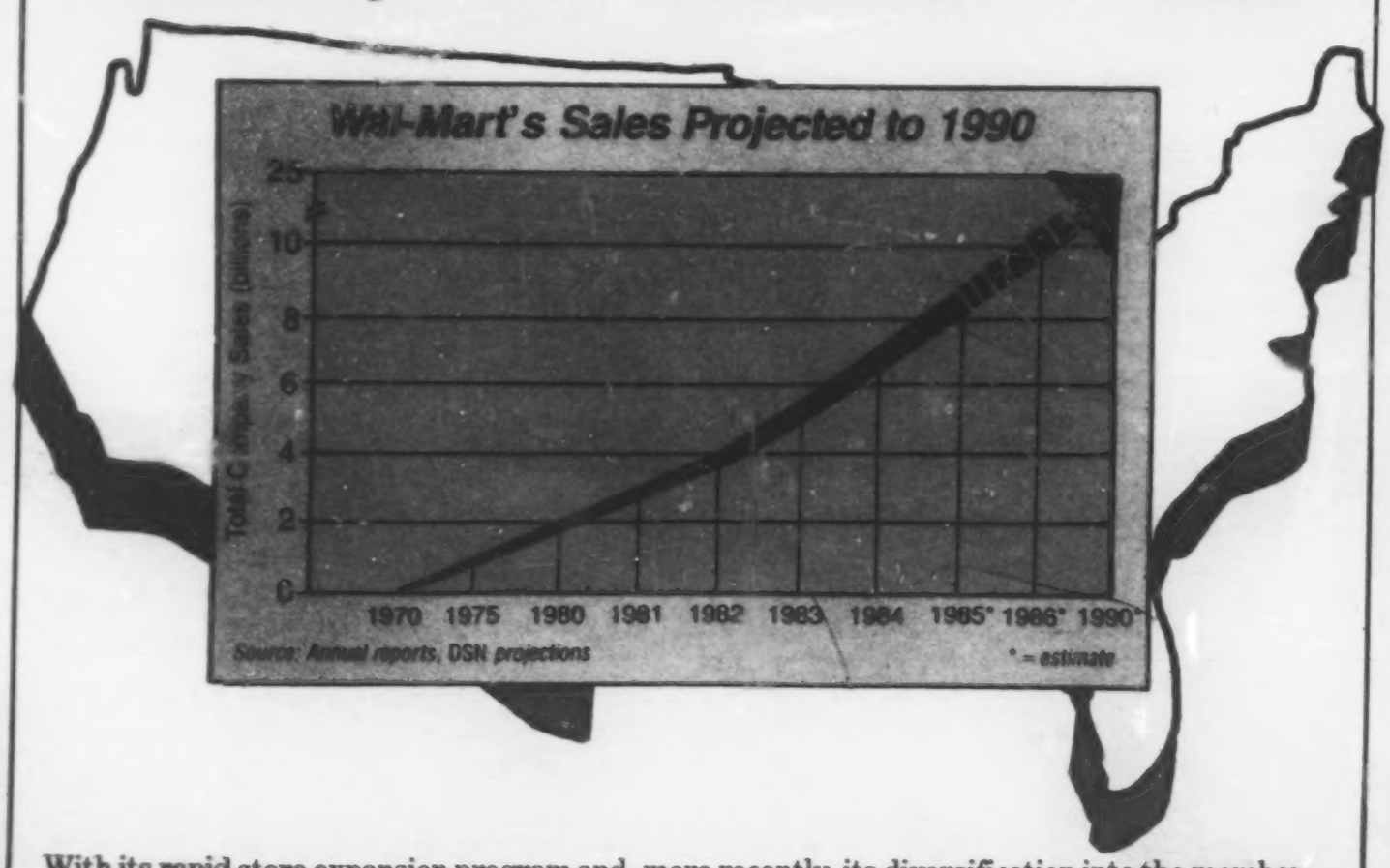

**Looking Ahead:**
- The Company by 1990 ..... 21
- Financial Analysis ..... 41

**Diversification:**
- Sam's Wholesale Club ..... 33-42
- dot and Helen's ..... 57

**Market Strategies:**
- Nashville ..... 65
- Albuquerque ..... 67
- Dallas ..... 69

**Merchandise Analysis**
- 14 key departments ..... 73-136
- Buy America ..... 74


### Sales Skyrocket: $22 Billion in 1990?




With its rapid store expansion program and, more recently, its diversification into the membership warehouse business, Wal-Mart is headed toward what *DSN* projects as a $22 billion year in 1990. Sales of $5.7 billion in the first three quarters of this year—a 31% jump over last year—should propel Wal-Mart to the $8 billion mark for the year. The increased expansion pace with Sam's Warehouse Clubs and Wal-Mart discount stores should move the company to $11 billion in sales next year—a far cry from the $44 million in 1970, Wal-Mart's first year as a public company.


00240370 DS
MS JEANNE LONG
CONGRESSIONAL INFOR SVC 1GL
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

MADE IN THE U.S.A.

# Discount Store News®

*THE NEWSPAPER OF DISCOUNT RETAILING*

VOL. 24, NO. 24 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | DECEMBER 9, 1985


## SCOA Buyers Plan Expansion for Hills

COLUMBUS, Ohio — The group preparing a buyout of Hills Department Stores parent SCOA intends to open 13 new stores next fiscal year and an additional 10 per year thereafter.

At the same time, the group intends to sell at least two of the company's divisions; the retail footwear operation and The Dry Goods, a seven-store family apparel chain. This sale is projected to raise $44 million of the $607 million needed to complete the leveraged buyout, according to the proxy statement sent to shareholders in advance of the Dec. 10 vote on the buyout.

The group anticipates 5% annual growth in comparable store sales from Hills. The chain accounted for over 80% of the company's sales and over 90% of its profits in the most recently completed fiscal year.

The proxy lists no potential buyers for the two divisions. However, Richard C. Gully, president of The Dry Goods, said executives of that operation are "definitely" considering organizing their own buyout of the chain.

The Dry Goods operates seven stores in southern New Jersey, Delaware and the Philadelphia area.

The footwear retailing operations include leased departments in discount stores (197 units at the end of the most recent fiscal year), leased operations in department stores (129 units), Gallenkamp full service specialty stores (254 units) and 47 By-Way self service shoe stores.

The proxy statement outlines plans to pay current stockholders per share, $30 cash and the equivalent of $5 in new shares.

The leveraged buyout is being prepared by a group of past and present SCOA executives. They include Herbert H. Goldberger, Hills' founder and retired head, and his son Stephen, the discounter's current president.

The $607 million total buyout package was put together by THL, a Boston-based firm specializing in leveraged buyouts. It is headed by Thomas H. Lee, a grandson of SCOA's founder and nephew of Herbert H. Schiff, current chairman and ceo.

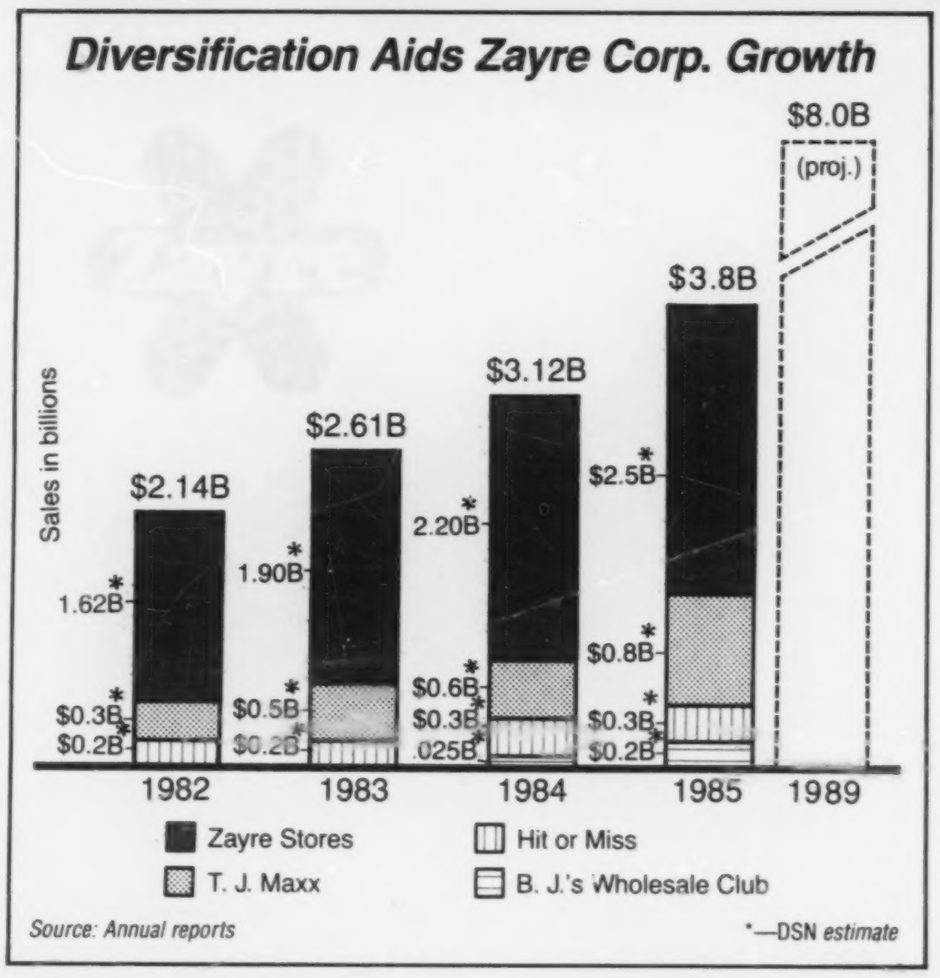
Several other executives have joined the group including George R. Friese, SCOA president, Larry Voelker, vice president finance and treasurer, Stephen A. Feldman, vice president controller and William K. Friend, secretary and corporate counsel.

Schiff, 68, SCOA's largest individual stockholder with 8.5% of the shares, is not part of the buyout group. The new managers said that they would retain him, and according to the proxy statement he would be entitled to $2.5 million in severance pay plus other pension benefits if he decided to leave after the buyout is completed.

According to the proxy statement, stockholders would receive "$30 in cash plus 0.20 of a share in Series B Preferred Stock for every share of common stock surrendered." The liquidation value of Series B stock would be $25, but they would be last in line for any pay-

*(Continued on page 150)*

## Zayre Signals Diversification




## HomeClub Acquisition Set

FULLERTON, Calif. — Zayre's acquisition of the HomeClub, a unique home center warehouse, is now just a formality.

Zayre's takeover is due to come at a special shareholders meeting due to be called in early January to act on the proposed $147 million stock deal.

Zayre has irrevocable proxies from owners of more than 55% of the HomeClub's 10.3 million share outstanding to vote their holdings at that meeting.

Additionally, the company's founders and two top executives, Robert J. McNulty, chairman, president and chief executive officer, and George J. Handgis, executive vice president-merchan-dising, have granted Zayre a similar option on their approximately 700,000 shares.

The deal calls for each HomeClub to be swapped for $14.25 of Zayre common. The exchange would have one HomeClub share converted into at least 0.2177 and no more than 0.2661 Zayre shares.

While Zayre doesn't have any expertise in lumber and building materials and other home center categories that are merchandised exclusively by the HomeClub, it is familiar with the membership warehouse concept through its BJ's Wholesale Club operation.

The basic membership ware-

*(Continued on page 150)*

## HomeClub Latest Move to $8B By Decade's End

**By ARTHUR MARKOWITZ**

FRAMINGHAM, Mass. — Zayre Corp's impending acquisition of the HomeClub, the nation's only membership warehouse home center chain, is the latest signal that the $3.1 billion company is actively persuing—on a national scale—its diversification goal: To become at least an $8 billion retailing conglomerate by the end of the decade.

Maurice Segall, president and chief executive officer, said, "The acquisition of HomeClub is part of Zayre's long-term strategy to become a diversified, value-based chain store retailer."

The planned takeover of HomeClub through a $147 million stock deal follows Zayre's $1.9 million purchase of discounter Gaylords in April and its reported efforts to obtain at least two other retailers this summer. (Gaylords was folded into the Zayre discount chain.)

The HomeClub move marks the first time Zayre has entered a new retailing concept through an acquisition, rather than by starting its own operation. BJ's Wholesale Club, which marked the company's entry into the membership warehouse field, Hit or Miss, its first ladies' apparel specialty store chain and the T. J.Maxx off-price family clothing chain were all Zayre startups.

The HomeClub will also mark Zayre's national diversification as the 18-unit, do-it-yourself chain is headquartered in Fullerton, Calif., and operates in four western states: Calfornia, Washington, Colorado and Nevada, markets where there aren't any other Zayre operations.

*(Continued on page 150)*

## Say HMI Buyers to Sell Most Divisions

CHICAGO — The management group proposing a leveraged buyout of Household Merchandising Inc. (HMI) from parent Household International plans to sell off all operations except a core group of 375 T.G. & Y. discount department stores to fund the $700 million plus deal, according to industry sources.

The sources say the buyout group, headed by West Coast-based Von s Supermarkets' chief executive officer Roger Stangeland, plans to raise half the purchase price by selling off Von s, reportedly to A & P; the Ben Franklin variety store and Coast to Coast hard lines specialty operations (both franchised businesses, to drug wholesaler FoxMeyer Corp.; and approximately 364 T.G. & Y. variety stores to McCrory's.

Stangeland and others associated with the deal have not returned repeated telephone calls for comment. Previously, they have insisted that the deal involves no sell-off of any divisions. "We intend to run all four subsidiary companies," Stangeland said when the deal was announced.

The sources said that, at presstime, the group was scrambling to come up with the remaining $350 million needed to fund the deal. The money reportedly would be produced by about $300 million in bank or other outside financing, contingent upon the group itself raising the remaining $50 million, less than 10% of the original purchase price.

Reportedly, the group is working under a Dec. 31 deadline for the sale imposed by Household International.

The T.G. & Y. buyout group is said to include Stangeland; FoxMeyer, based in Aurora, Colo.; at least a dozen executives of the four divisions of HMI; real estate developer Fritz Duda of Dallas; and the in-

*(Continued on page 150)*

## IN BRIEF

• **AMES DEPARTMENT STORES** says it will have all 143 Murphy variety stores and 108 discount stores operating under the company's systems by Feb. 1, 1986, according to company chairman, Herbert Gilman. He also said Ames plans about 20 new stores and 20 store remodels in 1986.

• **BJ'S WHOLESALE CLUB,** the membership warehouse arm of Zayre Corp., plans to open at least 10 units in 1986, with sites in Rochester, N.Y., Cherry Hill, N.J., and North Miami (as its second in the Miami market) already set. Next month it will put the BJ's name on the three Chicago-area locations it acquired earlier this year when it purchased Metro Cash & Carry.


***Catalog Showroom News:***

***Charter, George set Cooperative*** **P. 12A**

**Discounter Management Development Series:** **P. 140**


**Index**


At The Source . . . . . 140A-140B
Catalog Showroom News . . . 12A
Classified . . . . . 145-148
Editorial Page . . . . . 8
Executive Changes . . . . . 17
Manufacturer News . . . . . 148
Stock Update . . . . . 6

*Annual NMRI Report*

# Chains Rely on Training to Combat Pilferage

NEW YORK — Mass merchandisers and other retailers are increasingly turning to training programs, use of limited access areas and guards to battle losses from shoplifting and pilferage.

Last year shrinkage losses cost 168 mass merchants, department and specialty stores more than $1.9 billion, according to an annual survey of security and loss prevention conducted for the National Mass Retailing Institute (NMRI) by Arthur Young and Co., New York. The survey also found:

- shrinkage as a percentage of sales rose 6% in 1984 to 1.7%, from its 1983 level of 1.6%, and
- average shrinkage levels for mass merchandisers, 1.5%, and specialty stores, 1.6% remained constant last year from the year before, while department stores reported shrinkage of 2% for 1984, as compared to 1.8% for 1983.

Retailers attributed approximately 43% of their total shrinkage to employee theft, 30% to shoplifting, 23% to poor paperwork control and 4% to vendor theft. They also estimated 39% of employee thefts occur at the point-of-sale, and 19% on the selling floor.

The most common method of combating employee and consumer theft, used by 83% of those polled, is training programs. "Teaching employees the ABC's of loss prevention—from identifying shoplifters to knowing where inventory shortages frequently occur—is vital to today's retailers," said Stephanie Shern, co-chair of the National Retail Group at Arthur Young. Aside from training security personnel, more than three-quarters of the retailers surveyed conduct shrinkage awareness programs.

In addition, 77% of retailers have an established reward or recognition system for employees who help loss prevention. Among companies with these programs, 47% offer monetary awards to nonsecurity personnel for apprehensions, while only 8% award security personnel monetary awards. Almost half the companies, 48%, bestow nonmonetary recognition upon personnel for shrinkage control.

The study, covering responses from 78 mass merchants, 44 department stores and 46 specialty stores with combined 1984 sales of $124 billion, also highlighted other increasingly popular methods of containing shrinkage costs.

Retailers, for example, are relying more and more on high tech devices like point-of-sale systems (63%), visible TV monitors (51%), electronic tags (49%) and concealed TV monitors (46%).

In fact, although training programs, guards and the use of limited-access most frequently used methods of controlling shrinkage, the highest majority of retailers polled, 60%, cited electronic and magnetic tags as the most effective way of deterring theft.

Mirrors, reported in 1983 to be the most commonly used method of deterring theft, dropped to fourth place last year. However, they continue to be used by more than three-quarters of retailers polled, although only 2% said they are the most effective methods. Retailers explained that mirrors are the least expensive method of controlling shrinkage, and store employees and shoppers perceive them to be effective controls. Fitting room attendants, employed by 44% of retailers polled, were thought most effective by only 1%.

### How Chains Are Fighting Shrinkage

| Devices used to control shrinkage | | Devices judged to be most effective | |
|---|---|---|---|
| Training programs | 83% | Electronic/magnetic tags | 60% |
| Guards/detectives | 81 | Training programs | 28 |
| Limited-access areas | 81 | Guards/detectives | 26 |
| Mirrors | 77 | Limited-access areas | 8 |
| Lock and chain devices | 71 | Point-of-sale systems | 8 |
| Point-of-sale systems | 63 | Observation booths | 7 |
| Visible TV monitors | 51 | Concealed TV monitors | 7 |
| Electronic tags | 49 | Other | 4 |
| Observation booths | 46 | Lock-and-chain devices | 2 |
| Concealed TV monitors | 46 | Mirrors | 2 |
| Fitting-room attendants | 44 | Visible TV monitors | 2 |
| Other | 6 | Fitting-room attendants | 1 |

Source: Arthur Young/NMRI Seventh Annual Study of Security and Shrinkage

## K mart Launches 1st Gift Certificate Offer

TROY, Mich. — K mart has launched its first chainwide gift certificate program, which allows individual shoppers as well as corporations and other organizations to purchase certificates in denominations up to $100.

"Several businesses which offered to buy gift certificates—added to continuing consumer requests—were the catalysts for K mart to move ahead with the program," commented K mart chairman Bernard M. Fauber.

With the program's start, K mart joins other discounters like Bradlees, Hills and Caldor, which already make gift certificates available to consumers.

K mart shoppers can buy the $5, $10 and $25 certificates at the service desk of any K mart store. Certificates for $50 or $100 are available from K mart International Headquarters.

Profit and nonprofit organizations with multiple orders can also order through K mart headquarters.

K mart kicked off the new program, in time for holiday shopping, with a direct mailing to corporations and other organizations and an ad in its first October roto preprint program. The chain will advertise the gift certificate program about once a week in chain circulars through Christmas, and is supporting it through in-store signing.

The spokesman added that the program will continue year-round, and will be backed with circulars on a regular basis.

# First Three Quarters Bring Mixed Sales and Earnings

*Nationwide* DSN *Roundup*

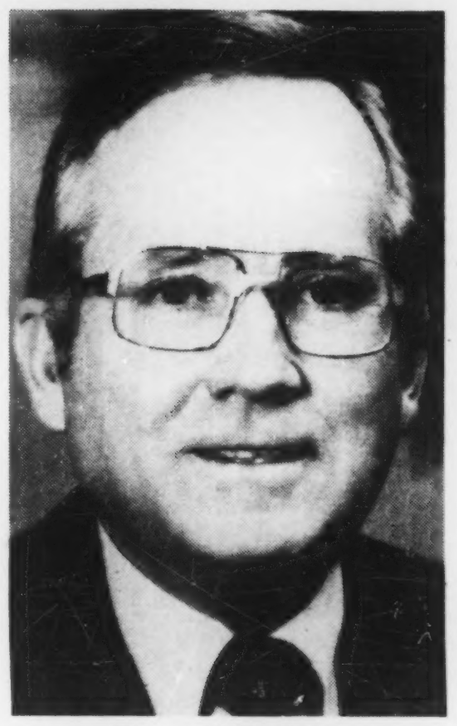
The top discount chains reported mixed sales and earnings results for the third quarter and first three quarters of 1985.

■ **K mart** suffered a 16% drop in earnings for the third quarter ended Oct. 30, primarily because of weak sales and lower profit margins. Bernard K. Fauber, company chairman, commented: "Cautious consumer spending has delayed normal pick-up in holiday and winter sales. However, we anticipate an improvement in the pace of sales as we get closer to Christmas."

Net income for the quarter was $77.4 million, down from $92.4 million the year before. Sales for the quarter were $5.2 billion, a 4.6% increase over same period sales the year before of $5 billion.

Year-to-date net earnings dropped 28.5% to $210.7 million from $294.8 million the year before. Same period sales were up 10.2% to $15.7 billion, from $14.2 billion in 1984.

■ **Target,** the discount store division of Dayton Hudson, reported that sales for the 13 weeks Nov. 2 rose 9.3% to $907,600 as compared to same period sales a year ago of $830,630.



Bernard Fauber

The **Mervyn's** division of Dayton Hudson experienced a sharper sales gain, 21.4%, with sales reaching $607,865 for the quarter, up from $500,869 the year before.

As a whole, Dayton Hudson's earnings for the third quarter jumped 30.6% to $56.9 million, up from $43.2 million for the same period in 1984. Third-quarter sales for the corporation were up 11% to $2.1 billion, as compared to sales of $1.9 billion in 1984.

■ **Wal-Mart Stores Inc.** reported third-quarter net income of $70.9 million, a 21% increase over income of $58.8 for the period last year.

Sales for the quarter were $2,087.5 million compared with $1,583.6 million in 1984. For the nine months, sales were $5,677.6 million, up from $4,326.9 million for the period in 1984.

The company operated 834 Wal-Mart and 19 Sam's Wholesale Clubs at the end of the third quarter, Oct. 31, 1985, in contrast to 726 Wal-Mart and seven Sam's stores at the end of the third quarter last year.

■ **Ames** reported third-quarter sales of $445 million, a jump of 117% from $205 million last year. G. C. Murphy was responsible for $194.9 million of the sales gain ($240).

Net income for Ames during the third quarter was up 42.7% to $10.7 million from $7.5 million in 1984. For the nine months, sales were $978.2 million compared to $562.5 million for the comparable period last year, a jump of 73.9%.

At the end of the third quarter there were 108 discount and 153 variety stores in operation under the G. C. Murphy name. During the second quarter of this year there were 118 discount and 161 variety stores.

*(Continued on page 150)*

Discount Store News QUIZ

The *DSN* Quiz, testing your knowledge of news and trends in discount retailing covered in the previous two issues, will appear on this page monthly. Check your answers with the key on p. 150.

1. By the end of the decade, the membership warehouse club throng will expand to:
a) 1,000 stores and over $50 billion in business;
b) 2,000 stores and over $100 billion in business;
c) overseas markets.

2. K mart will be shuttering:
a) Readers Market;
b) Accents;
c) Waldenbooks.

3. Gold Circle's decision to pull out of Pittsburgh this January was caused by:
a) inclement weather;
b) increased competitive pressures in the market;
c) disappointing sales and an inability to find suitable sites for expansion.

4. Popples, Jem and Fluppy are:
a) children's breakfast cereals;
b) new toy licenses for 1986;
c) out of work munchkins.

5. New growth strategies employed by housewares buyers next year will include:
a) between meal snacks;
b) deeper assortments of under-the-cabinet electric appliances;
c) holding down advertising costs.

6. What has Caldor committed $5 million to $6 million for?
a) expansion of its distribution network;
b) its first ever TV ad campaign;
c) a customers' sweepstakes.

7. Pic 'n' Save founder and former chairman William Zimmerman has acquired half interest in:
a) Odd Lot Trading;
b) Pay 'n Save;
c) fine wines.

8. Best Products will debut in metropolitan New York next year with:
a) an Ashby's ladies wear store;
b) five new catalog showrooms;
c) a revival of "Cat On A Hot Tin Roof."

9. Next year, discount store domestic departments will see a lot of:
a) florals, watercolors and midtone shades;
b) still life and pointillism prints;
c) lions and tigers and bears.

10. Overall, the growth in maternity sales has been spurred by:
a) men;
b) more fashionable assortments;
c) demographics.

*DISCOUNT STORE NEWS*
(ISSN 0012-3587), is published biweekly—every other Monday except Sept. 17 through Oct. 29, when published every third week; monthly in December—by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscription rates: *Retailers*—one year, $12; three years, $30. Canada: one year, $13; three years, $33. *Wholesalers, manufacturers, schools, libraries and all others*—one year, $20; two years, $38; Canada: one year, $21; two years, $40. *Foreign subscriptions:* Airmail only, $100 per year. Single copy rate, $2, except annual census issue, $20.

Second-class circulation postage paid at New York, N.Y., and additional mailing offices.

Copyright© 1985 by Lebhar-Friedman Inc. All rights reserved. Postmaster: please send address changes to Subscription Department, *Discount Store News*, 99 Park Ave., New York, N.Y. 10157. For change of address six weeks notice is requested. Give old and new address and zip code. If possible, enclose address portion from cover of previous issue.

Vol. 24, No. 24 Dec. 9, 1985

## Balance Sheet Data For Fiscal Year Ended Feb. 2, 1985

| Balance Sheet Data | K mart (millions) | % | F. W. Woolworth (millions) | % | Household Merchandising[a] (millions) | % | Zayre[b] (millions) | % | Toys "R" Us (millions) | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and Equivalent | $ 492.0 | 5.3 | $ 119.0 | 5.1 | $ 1.5 | 0.1 | $ 70.3 | 6.3 | $ 215.3 | 19.6 |
| Trade Receivables—Net | 179.0 | 1.9 | — | — | 96.2 | 6.6 | 9.0 | 0.8 | 23.4 | 2.1 |
| Inventories | 4,587.8 | 49.5 | 1,108.0 | 47.9 | 775.3 | 53.5 | 602.9 | 54.4 | 397.9 | 36.2 |
| Other Current Assets | 52.0 | 0.6 | 108.0 | 4.7 | 63.2 | 4.4 | 15.5 | 1.4 | 2.0 | 0.2 |
| *Total Current Assets* | 5,310.8 | 57.3 | 1,335.0 | 57.7 | 936.2 | 64.6 | 697.7 | 62.9 | 638.6 | 58.1 |
| Property and Equipment—Net | 3,338.3 | 36.1 | 867.0 | 37.6 | 467.8 | 32.2 | 380.3 | 34.3 | 431.6 | 39.3 |
| Investments | 392.3 | 4.2 | — | — | — | — | — | — | — | — |
| Other Noncurrent Assets | 219.9 | 2.4 | 109.0 | 4.7 | 46.5 | 3.2 | 30.7 | 2.8 | 28.3 | 2.6 |
| *Total Noncurrent Assets* | 3,950.5 | 42.7 | 976.0 | 42.3 | 514.3 | 35.4 | 411.0 | 37.1 | 459.9 | 41.9 |
| Total Assets | 9,261.8 | 100.0 | 2,311.0 | 100.0 | 1,450.5 | 100.0 | 1,108.7 | 100.0 | 1,098.5 | 100.0 |
| Borrowings Due in One Year | 310.9 | 3.4 | 50.0 | 2.2 | 14.2 | 1.0 | 10.9 | 1.0 | 22.2 | 2.0 |
| Accounts Payable | 1,916.9 | 20.7 | 375.0 | 16.2 | 478.6 | 33.0 | 193.8 | 17.5 | 250.1 | 22.8 |
| Accrued Income Taxes | 98.8 | 1.1 | 24.0 | 1.0 | — | — | 26.9 | 2.4 | 44.2 | 4.0 |
| Deferred Income Taxes | — | — | — | — | — | — | 13.2 | 1.2 | — | — |
| Other Current Liabilities | 562.5 | 6.1 | 283.0 | 12.2 | 151.8 | 10.5 | 136.2 | 12.3 | 100.5 | 9.2 |
| *Total Current Liabilities* | 2,889.1 | 31.3 | 732.0 | 31.6 | 644.6 | 44.5 | 381.0 | 34.4 | 417.0 | 38.0 |
| Senior Long-Term Debt | 918.6 | 9.9 | 250.0 | 10.8 | 101.7 | 7.0 | 88.8 | 8.0 | 65.1 | 5.9 |
| Capital Lease Obligations | 1,780.1 | 19.2 | 122.0 | 5.3 | 113.9 | 7.8 | 70.4 | 6.3 | 20.9 | 1.9 |
| Reserves and Other Liabilities | 251.9 | 2.7 | 156.0 | 6.8 | 25.4 | 1.8 | 42.0 | 3.8 | 16.4 | 1.5 |
| Subordinated Long-Term Debt | 188.3 | 2.0 | — | — | — | — | 58.4 | 5.3 | — | — |
| *Total Liabilities* | 6,028.0 | 65.1 | 1,260.0 | 54.5 | 885.6 | 61.1 | 640.8 | 57.8 | 519.4 | 47.3 |
| Stockholders Equity | 3,233.8 | 34.9 | 1,051.0 | 45.5 | 564.9 | 38.9 | 468.1 | 42.2 | 579.1 | 52.7 |
| Total Debt and Equity | 9,261.8 | 100.0 | 2,311.0 | 100.0 | 1,450.5 | 100.0 | 1,108.7 | 100.0 | 1,098.5 | 100.0 |

*[a]Balance sheet and operating data for fiscal year ended Dec. 31, 1984. [b]Balance sheet and operating data for fiscal year ended Jan. 26, 1985. Source: Harris Bank Retail Study*

CONGRATULATIONS
TO
WAL-MART

YOUR SUCCESS
HELPS MAKE
AMERICA STRONG

Land 'n Sea

1370 Broadway • New York, New York 10018

# Harris: Moderate Growth

CHICAGO — Retail sales can be expected to increase at a moderate pace through 1986 with real annual increases of 3%-4%, providing the economy continues on its current path toward higher employment, low inflation and increased economic growth, according to the 32nd annual Harris Bank Retail Study.

Already, retailers have reported only moderate sales growth for the first half of 1985, in part monitoring the economy's overall growth, and in part from abnormally cold weather and delays in income tax refunds, stated the report.

Also playing a role in retailers' profitability were excess inventories which lingered from late 1984 into the first few months of 1985, and which continued to squeeze gross profit margins. However, as promotional activity eases, as it now shows signs of doing, gross margins will improve, the report said.

These first half results continue a pattern set last year. Although for the entire year retail sales jumped 10.5% to $1.3 trillion, growth during the second half of 1984 had slowed to a 4% rate.

Mass merchandisers as a group, experienced similar growth patterns last year. The aggregate sales volume of seven mass merchandisers monitored by the Harris Bank increased 7% in 1984 to almost $78.8 billion. The companies are Sears, Roebuck & Co.; K mart; J. C. Penney; F. W. Woolworth; Montgomery Ward; Household Merchandising (parent company of T.G. & Y.) and Zayre.

As in retail outlets industrywide, spending at mass merchandise chains picked up even more over 1983 during the first half of 1984, as consumer confidence rose along with economic growth. Spending quickly tapered off, however, in the second half, leaving mass merchandisers with heavy inventories, burning a path for a fiercely competitive promotional environment.

Nevertheless, according to the report, mass merchandisers finished the second half with improved sales growth, primarily from volume increases rather than new store openings or high inflation. Additionally, 6 of the 7 firms studies also experienced a slight improvement in gross margins.

All mass merchandisers surveyed benefited from LIFO credits, which made a large contribution to their gross margins. As a result of the continued low rate of inflation, the aggregate LIFO reserve for these companies declined over 12.4%.

Also supporting modest growth are operating strategies begun earlier in the 1980's which are being carried into the latter half of the decade, according to the report.

For one, mass merchandisers have turned to technology to reduce transaction time and cost. Many chains are now investing in computerized checkout and scanning systems.

Also, chains are adding services to strengthen customer loyalty and broaden their customer base. These services include providing limited financial services, installing automatic teller machines, in-house credit arrangements and adding check cashing services.

SPECIAL REPORT SPECIAL **WAL-MART: THE COMPANY** REPORT SPECIAL REPORT

# An Evaluative Comparison: Will the Good Times Last?

By JOSHUA A. POLAN
*Partner,*
*Director, Retail Services*
*Touche Ross & Co.*

Anyone who has had anything to do with retailing in the recent past must have heard of Wal-Mart's fabulous success. But is that success a short-term phenomenon or will it withstand the test of time? Has Wal-Mart built something which will endure the vagrancies of our economy or has it sacrificed a solid foundation for short-term results?

Evaluation can't be done in a vacuum; thus, we have compared Wal-Mart to K mart and Zayre for several reasons:

1. Their market focus is toward the value conscious consumer.

2. Each has achieved a critical mass in terms of market penetration. Sales for 1984 were $21.1, $6.4 and $3.1 billion for K mart, Wal-Mart and Zayre.

3. The companies are each in a different stage of the corporate life cycle; K mart being the most mature, Zayre having an outstanding record of growth but only for the last four years and Wal-Mart, whose compounded growth rate has been 38.5% in sales and 52.4% in profitability for the past 10 years.

Recent store growth statistics clearly indicate the direction in which the companies are heading. The following graph depicts annual percentage growth in store units over the base as of Jan. 31, 1981.

**Comparative Statistics: Wal-Mart, K mart, Zayre**

| | Fiscal 1985 | | | Fiscal 1984 | | |
|---|---|---|---|---|---|---|
| | Wal-Mart | K mart | Zayre | Wal-Mart | K mart | Zayre[1] |
| Net sales (millions) | $6,401 | $21,096 | $3,123 | $4,667 | $18,598 | $2,614 |
| Net income (millions) | $271 | $499 | $80 | $196 | $492 | $61 |
| Per cent of sales | 4.2% | 2.4% | 2.6% | 4.2% | 2.6% | 2.4% |
| Net income per share | $1.91 | $3.84 | $3.99 | $1.40 | $3.80 | $3.19 |
| Stock price[2] | $46.88 | $33.50 | $61.50 | $35.50 | $29.00 | $33.08 |
| Stock price/net income | 24.5 | 8.7 | 15.4 | 25.4 | 7.6 | 10.4 |
| Book value at year end | $7.02 | $25.87 | $23.66 | $5.27 | $23.35 | $20.02 |
| Stock price/book value | 6.7 | 1.3 | 2.6 | 6.7 | 1.2 | 1.7 |
| Current ratio | 1.9 | 1.8 | 1.8 | 2.0 | 1.9 | 1.9 |
| Sales/inventory[3] | 6.1 | 4.6 | 5.4 | 6.2 | 4.7 | 5.6 |
| Debt/equity | 0.5 | 0.9 | 0.5 | 0.5 | 0.9 | 0.5 |
| Return on assets[4] | 14.0% | 5.7% | 8.0% | 13.8% | 6.3% | 7.4% |
| Return on equity[4] | 31.4% | 16.2% | 18.6% | 32.0% | 17.8% | 17.8% |
| Dividends per share | 0.21 | 1.24 | 0.39 | 0.14 | 1.08 | 0.27 |
| Dividends/net income | 9.1% | 32.3% | 9.8% | 10.0% | 28.4% | 8.5% |

[1]Appropriate numbers adjusted to reflect 10% stock dividend in fiscal 1985.
[2]At April 30 after year-end earnings announcement.
[3]Based on average FIFO inventory.
[4]Based on average assets and equity.

Source: Touche Ross

Zayre's discount-store division has increased marginally, while its off-price units have increased almost 100% over the same period. K mart's number of general merchandise store units has been flat; specialty retailing units have increased almost six-fold, primarily due to the acquisition of Waldenbooks and PayLess Drug Stores.

Wal-Mart's store units have increased about 130% over a base as of Jan. 31, 1981.

Retailers love to boast of their sales increases but it's comparable store sales increases which have the most positive impact on pretax earnings. Free of preopening coasts, and with smaller incremental growth in distribution, selling and advertising expenses, these increases in productivity mean that a large portion of the added gross margin goes to the bottom line.

Wal-Mart has had consecutive annual comparable store sales increases (CPI) of 15%. The CPI increased only 7.5% cumulatively over that period; thus its real sales gains were impressive.

Zayre's increases were in excess of 10% for its discount department stores, but only 6% and 5% for their off-price units.

K mart doesn't disclose CPI figures. Although it discloses sales per square foot and related annual increases, the calculation is distorted because the numerator (sales) includes sales of all stores for the year, while the denominator (sq. ft.) includes only stores open for a full year.

How much of a store's sales reaches the bottom line is a measure of productivity. Differences in the classification of expenses as well as the mix of business renders unfruitful a line-by-line expense ratio comparison for the companies. Nonetheless, the trends tell a story.

Examination of cost of sales plus selling, general and administrative expenses expressed as a percentage of sales indicate Wal-Mart, at 92.3%, is the leader. It has the most dollars available for those who have invested in its business, the creditors (interest) and the shareholders (dividends). In addition, over the last five years, it has been able to reduce the barometer from 93.7%.

Zayre has shown the largest improvement, from 96.4% to 94.4%. K mart also has improved, from 96.7% to 95.9%. But it has been inconsistent. Results for 1981 and 1982 were worse than for 1980 and 1984 was worse than 1983.

K mart is the most highly leveraged of the companies due significantly to the impact of capitalized leases. Interest expense for both Wal-Mart and Zayre were less than 1% of sales in 1984. Zayre has significantly reduced the impact of debt on operation over the last five years; Wal-Mart and K mart have seen little change.

As previously mentioned, Wal-Mart's growth in profitability was 52.4% compounded for the last 10 years. Zayre had modest growth in 1981 but net income has increased $13, $26.3 and $18.9 million in fiscal years 1982, 1983 and 1984, respectively. K mart did well overall, increasing net income from $251 million in 1980 to $499 million in 1984. Doubling of net income in a four-year period is an exemplary performance. However, K mart was erratic. Earnings were down in 1981 and flat in 1984 (see chart at right).

Comparison of various balance sheet indicators shows consistent results for all three. The current ratio as of the end of 1984 was 1.8:1 for both K mart and Zayre. Wal-Mart was 1.9:1, an insignificant differential. Inventory as a percentage of working capital was 190% for both K mart and Zayre and 180% for Wal-Mart. Clearly, there is very little difference in the way these companies configure the asset side of their balance sheets.

Zayre and Wal-Mart both have debt-(including capital leases)-to-equity ratios of less than 0.5:1. Zayre has reduced this from 1.3:1 at the end of 1981; Wal-Mart reduced its from 0.7:1. Each company has chosen the conservative path of using internally generated cash flow to reduce their debt leverage.

K mart had a less conservative debt-to-equity ratio of 0.9:1. This is consistent with its results since the end of 1980. K mart needs more leverage to finance first, new store openings and now, acquisitions because it needs more sales than its two competitors to generate similar profit levels.

As the table indicates, Wal-Mart's productivity is far better than its two competitors when measured by return on average assets and equity.

The dividend payout ratio—dividends as a percentage of income—reflects each chain's position in the corporate life cycle. Wal-Mart and

*(Continued on page 124)*